The Economic Outlook Amidst Trade Uncertainty

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The views expressed here are my own and do not represent those of my colleagues at the Federal Reserve Bank of Cleveland or the Federal Reserve system.
Key takeaways:

1. Economic growth remains solid even as it slows toward trend
2. Labor markets remain healthy in much of the country
3. Inflation remains low and stable
4. The outlook is for continuation of recent trends
5. However, risks have arisen on the downside
Equity markets have declined in recent weeks, volatility is higher

S&P 500 and Volatility Index

Sources: Wall Street Journal, Chicago Board Options Exchange, retrieved from Haver Analytics

Last observation: 8/13/2019 for S&P 500; 8/5/2019 for VIX
Bond yields are mostly lower, yield curve remains very flat

Treasury Yields

Percent

Source: Federal Reserve Board, retrieved from Haver Analytics
Last observation: August 13, 2019
Inverted yield curve may suggest heightened risk aversion

Yield Spread: 10-Year Treasury Note Less 3-Month Treasury Bill

Source: Federal Reserve Board, retrieved from Haver Analytics
Last observation: August 13, 2019
Output exceeded spending in the U.S. in Q1, payback in Q2

Real Gross Domestic Product Growth

Percent change, annual rate

Sources: Bureau of Economic Analysis, retrieved from Haver Analytics
Last observations: 2019:Q2
Biggest contributions to Q2 GDP growth were PCE and Gov

Contributions to Real Gross Domestic Product Growth

Percent change, annual rate

Sources: Bureau of Economic Analysis, retrieved from Haver Analytics
Last observations: 2019:Q2
More recent data point to slower growth

ISM Manufacturing and Nonmanufacturing Indexes

Source: Institute for Supply Management, retrieved from Haver Analytics
Last observation: July 2019 for nonmanufacturing, July 2019 for manufacturing
Income growth exceeds PCE growth, good sign for spending...

Change in Personal Income and PCE

Year-over-year percent change

Real Personal Consumption Expenditure: 2.5
Real Disposable Personal Income: 3.3

Source: Bureau of Economic Analysis via Haver Analytics
Last data point: Jun 2019.
...as long as consumers remain upbeat

Consumer Confidence

Conference Board
Consumer confidence (left axis)
July 2019: 135.7

University of Michigan
Consumer sentiment (right axis)
July 2019: 98.4

Source: Conference Board, University of Michigan, retrieved from Haver Analytics
Last observation: July 2019 for consumer sentiment; July 2019 for consumer confidence
Residential construction remains tepid, despite solid fundamentals.

Real Private Residential Investment

Source: Bureau of Economic Analysis, retrieved from Haver Analytics

Last observation: 2019:Q2
Growth in investment spending is a wildcard

Real Nonresidential Fixed Investment Growth

Percent change, annualized quarterly rate

Source: Bureau of Economic Analysis, retrieved from Haver Analytics
Last observation: 2019:Q2

2018: Q3 = 2.1
Q4 = 4.8
2019: Q1 = 4.4
Q2 = -0.6
Capex spending growth has slowed, fundamentals are shaky

Core Capital Goods

3-month moving average percent change

New Orders: 0.2
Shipments: 0.4

Capex spending growth has slowed, fundamentals are shaky.
Exports have been flat since trade tensions arose.

Exports

Billions, USD

Last observation: June 2019
Source: Census Bureau; Haver Analytics
Exchange rates will keep pressure on trade deficit

Trade-Weighted Nominal Exchange Rate

Index Jan-97=100

Source: Federal Reserve Board, retrieved from Haver Analytics
Last observation: July 2019
Labor demand is still firm

Changes in Total Payroll Employment

Monthly change (thousands)

Change in total nonfarm payroll employment
July 2019: 164K

Moving averages
3-month = 140K
6-month = 141K
12-month = 187K

Source: Bureau of Labor Statistics, retrieved from Haver Analytics
Last observation: July 2019
Supply remains constrained due to sluggish labor force growth

Unemployment and Labor Force Participation Rates

Percent of labor force (seasonally adjusted)  Percent of civilian population (seasonally adjusted)

Unemployment rate (left axis)
July 2019: 3.7%

Labor force participation rate (right axis)
July 2019: 63.0%

Source: Bureau of Labor Statistics, retrieved from Haver Analytics

Last observation: July 2019
Inflation and inflation expectations are benign

PCE Inflation Measures

Year-over-year percent change

Headline PCE

Core PCE

FOMC target

Median PCE

Sources: Bureau of Labor Statistics, FRB Cleveland, retrieved from Haver Analytics

Last observation: June 2019
Commodity prices drifting down with rise in global uncertainty

CRB commodity spot price index (left)

Brent spot price (right)

Dollars per barrel

Index (1967=100)

Sources: Energy Information Administration/Wall Street Journal, Commodity Research Bureau, retrieved from Haver Analytics

Last observation: August 13, 2019
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